

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SSO-00 NSCE-00 INRE-00 USIE-00 AID-05

CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00 TRSE-00

XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-04 CEA-01 IGA-02 AGR-05 PA-01 PRS-01

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC IMMEDIATE 4756

INFO AMEMBASSY MONTEVIDEO

AMEMBASSY SANTIAGO

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PASS TREASURY, COMMERCE, MTN GENEVA

E. O. 11652: GDS

TAGS: EFIN, AR

SUBJECT: ARGENTINA'S BOP AND EXTERNAL FINANCIAL SITUATION

REF: A) STATE 53324 B) BUENOS AIRES A-215 C) BUENOS AIRES 5523

1. AIRGRAM REQUESTED REFTEL A WILL BE POUCED TO WASHINGTON
MAR. 9. IN VIEW WASHINGTON INTEREST IN INFORMATION BY MAR. 8,
TEXT OF AIRGRAM FOLLOWS:

SUMMARY: ARGENTINA'S BALANCE OF PAYMENTS AND EXTERNAL
FINANCIAL SITUATION HAVE AGAIN REACHED A CRITICAL POINT.
EXTERNAL DEBT MORATORIUM THIS YEAR IS CONSIDERED A REAL
POSSIBILITY. MARCH AND APRIL WILL BE PARTICULARLY DIFFICULT
MONTHS BECAUSE DEBT MATURITIES ARE HEAVY. OUR CURRENT EXPORT
PROJECTION IS \$3,500 MILLION - CONSIDERABLY DOWN FROM LAST
FALL'S OFFICIAL ESTIMATE OF \$4,200 MILLION. PROJECTIONS
FOR OTHER BALANCE OF PAYMENTS ACCOUNTS ARE AS FOLLOWS
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(1975 IN PARENTHESIS): TRADE ACCOUNT IN BALANCE (-\$900);

CURRENT ACCOUNT -\$400 (-\$1200); TOTAL DEFICIT -\$800 (-\$1095). WHILE THE TRADE AND CURRENT ACCOUNTS ARE IMPROVED, FINANCING PROBLEMS ARE LIKELY TO BE MORE DIFFICULT THIS YEAR. THE BURDEN ON COMPENSATORY CAPITAL WILL BE INCREASED. AT END DECEMBER 1975 TOTAL 1976 EXTERNAL DEBT WAS ABOUT \$3,000 MILLION INCLUDING \$2,500 MILLION CAPITAL AND \$500 MILLION INTEREST. ACTUAL CAPITAL AMORTIZATION IS ESTIMATED AT \$1,000. THIS FIGURE ASSUMES THE GOA WILL SUCCESSFULLY ROLL OVER MOST SHORT TERM PRIVATE FINANCIAL DEBT. AS OF OCT. 31, 1975 ARGENTINA'S TOTAL EXTERNAL DEBT WAS \$9,870 MILLION INCLUDING \$8,204 MILLION CAPITAL AND \$1,666 MILLION INTEREST. IF ASKED FOR ASSISTANCE, THE USG SHOULD REMAIN SYMPATHETIC TO ARGENTINA'S EXTERNAL PROBLEMS BUT AVOID INVOLVEMENT. END SUMMARY.

3. INTRODUCTION: AS WASHINGTON IS AWARE, ARGENTINE BALANCE OF PAYMENTS AND DEBT DATA ARE DIFFICULT TO OBTAIN. FOR THIS REPORT, THE EMBASSY HAS NOT REQUESTED ANY SPECIAL INFORMATION FROM THE CENTRAL BANK TO AVOID ANY IMPLICATION THE US IS CONSIDERING FINANCIAL ASSISTANCE. TRADE AND BOP FIGURES ARE EMBASSY ESTIMATES. DEBT DATA IS OFFICIAL BUT OBTAINED FROM A PRIVATE BANKING CONTACT.

4. IMMEDIATE PAYMENTS CRISIS: ARGENTINA FACES AN IMMEDIATE PAYMENTS CRISIS. DEBT MATURITIES ARE PARTICULARLY HEAVY IN MARCH AND APRIL WHILE EXTERNAL RESERVES ARE DEPLETED AND EXPORT RECEIPTS ARE ACCRUING MORE SLOWLY THAN ANTICIPATED. IN ADDITION TO NORMAL DEBT, MANY SWAPS AND SHORT TERM COMMERCIAL BANK CREDITS COME DUE. THE SITUATION HAS CREATED WIDESPREAD SPECULATION HERE THAT EXTERNAL DEBT MORATORIUM MAY BE IMMINENT. OUR SOUNDINGS INDICATE THE GOA PROBABLY WILL BE ABLE TO ROLL OVER ENOUGH MATURITIES TO SCRAPE BY. HOWEVER, AN EXTERNAL DEBT MORATORIUM SOMETIME DURING 1976 IS CONSIDERED A REAL POSSIBILITY.

5. TRADE PROJECTIONS: TABLE I ESTIMATES ARGENTINA'S IMPORTS AND EXPORTS FOR 1975 AND 1976. ACCORDING TO ECONOMY MINISTER MONDELLI, IMPORTS TOTALLED \$3,900 MILLION AND EXPORTS \$3,000 MILLION IN QOUTN LEAVING

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A LARGE \$900 MILLION TRADE DEFICIT. THE IMPORT FIGURE IS SURPRISINGLY LARGE IN VIEW OF TIGHT CONTROLS IN FORCE SINCE MARCH. REPORTEDLY, IMPORTS WERE HEAVY DURING THE FOURTH QUARTER WHICH WILL CREATE ADDITIONAL FINANCING PROBLEMS THIS YEAR.

6. OUR CURRENT 1976 EXPORT PROJECTION IS \$3,500 MILLION- CONSIDERABLY DOWN FROM LAST FALL'S OFFICIAL ESTIMATE OF

\$4,200 MILLION. SEVERE DROUGHT HAS REDUCED ANTICIPATED CORN EXPORT EARNINGS TO APPROXIMATELY \$200 MILLION - LESS THAN HALF THE 1975 FIGURE. TOTAL AGRICULTURE EARNINGS SHOULD REMAIN AT APPROXIMATELY LAST YEAR'S LEVEL WITH STRONG EXPORTS OF WHEAT AND SOME OTHER AGRICULTURAL ITEMS. PROSPECTS FOR EXPORTS OF MEAT AND MEAT PRODUCTS ARE MORE FAVORABLE THIS YEAR, PRIMARILY DUE TO EASING OF EC MEAT IMPORT RESTRICTIONS. SOME UPTURN IS ALSO PROJECTED FOR INDUSTRIAL EXPORTS. HOWEVER, RESULTS WILL DEPEND ON EX-CHANGE RATE DEVELOPMENTS AND THE DOMESTIC LABOR SITUATION.

7. 1976 IMPORTS ALSO ARE PROJECTED AT \$3,500 MILLION, LEAVING A BALANCED TRADE ACCOUNT. THIS IS A MINIMUM IMPORT LEVEL NECESSARY TO AVOID WIDESPREAD RECESSION AND UNEMPLOYMENT. IMPORT CONTROLS ARE LIKELY TO BE MAINTAINED AND EVEN TIGHTENED IN VIEW OF FOREIGN EXCHANGE SHORTAGES. THE GOA WILL GIVE FIRST PRIORITY TO IMPORTS OF RAW AND INTERMEDIATE ITEMS WHICH ARE IN LOW SUPPLY. CAPITAL GOODS IMPORTS ARE LIKELY TO BE CUT BACK SHARPLY BELOW 1975 LEVELS. CONSUMER GOODS IMPORTS WILL REMAIN MARGINAL - PRIMARILY INCLUDING BANANAS AND COFFEE.

8. BALANCE OF PAYMENTS PROJECTIONS: TABLE IIA GIVES BOP PROJECTIONS FOR 1975 AND 1976. IN 1975, THE MAJOR ACCOUNTS ARE ESTIMATED AS FOLLOWS: TRADE ACCOUNT -\$900 MILLION; CURRENT ACCOUNT -\$1200 MILLION DEFICIT -\$1095 MILLION. GROSS EXTERNAL ASSETS DROPPED FROM \$1411 MILLION AT END 1974 TO \$620 MILLION AT END 1975 ACCORDING TO ECONOMY MINISTER MONDELLI. THE END 1975 FIGURE IS COMPOSED PRIMARILY OF ILLIQUID RESERVES INCLUDING GOLD, BILATERAL ACCOUNTS, ETC.

9. IN 1976, THE MAJOR ACCOUNTS ARE ESTIMATED AS FOLLOWS:
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TRADE ACCOUNT IN BALANCE; CURRENT ACCOUNT -\$400 MILLION; DEFICIT -\$800 MILLION. THE TRADE AND CURRENT ACCOUNTS ARE SIGNIFICANTLY IMPROVED OVER 1975. HOWEVER, FINANCING THE IMBALANCE IS LIKELY TO BE EVEN MORE DIFFICULT THIS YEAR.

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ACTION ARA-10

INFO OCT-01 ISO-00 SSO-00 NSCE-00 INRE-00 USIE-00 AID-05

CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00 TRSE-00

XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-04 CEA-01 IGA-02 AGR-05 PA-01 PRS-01

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10. FINANCING REQUIREMENTS AND PROSPECTS: TABLE II B
REARRANGES THE BOP ACCOUNTS TO HIGHLIGHT FINANCING REQUIRE-
MENTS.

11. GROSS FINANCIAL REQUIREMENTS (CURRENT ACCOUNT PLUS
AMORTIZATION) WILL BE CONSIDERABLY REDUCED IN 19876. HOW-
EVER, FINANCING PROBLEMS WILL BE MORE DIFFICULT BECAUSE
INTERNATIONAL RESERVES ARE DEPLETED AND SHORT TERM SWAP
AND COMMERCIAL BANK CREDITS WILL BE MORE DIFFICULT TO
OBTAIN. THUS THE BURDEN ON COMPENSATORY FINANCE WILL BE
INCREASED. TO MEET ESSENTIAL IMPORT AND AMORTIZATION
PAYMENTS, THE GOA WILL REQUIRE GROSS COMPENSATORY CAPITAL
TOTALLING APPROXIMATELY \$1,000 MILLION.

12. PROSPECTS FOR RAISING SUCH A LARGE AMOUNT ARE UNCERTAIN.
CURRENT NEGOTIATIONS WITH THE IMF MIGHT PRODUCE AROUND
\$250 MILLION AND EXTERNAL BOND PLACEMENTS ANOTHER \$250
MILLION. THIS WOULD STILL LEAVE A FINANCIAL "GAP" OF
\$500 MILLION TO BE COVERED BY COMMERCIAL BANKS OR OTHER
SOURCES. THE GOA SAYS EUROPEAN BANKS HAVE COMMITTED \$200
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MILLION THIS YEAR (THE RESULT OF JAVIER VILLANUEVA'S TRIP)
BUT PRIVATE BANK CONTACTS ARE SKEPTICAL. IF NECESSARY,
THE GOA MAY HAVE TO MORTGAGE OR SWAP GOLD RESERVES TO
OBTAIN ADDITIONAL CREDIT - A STEP INVOLVING CONSIDERABLE
POLITICAL RISK.

13. 1976 DEBT AND AMORTIZATION: TABLES III AND IV PROVIDE DATA ON ARGENTINA'S 1976 DEBT. AS OF OCT. 31, 1975, THE TOTAL WAS \$2,581 MILLION INCLUDING \$2,233 MILLION CAPITAL AND \$348 MILLION INTEREST. HEAVY NOVEMBER AND DECEMBER BORROWINGS PROBABLY RAISED THE END DECEMBER FIGURE TO ABOUT \$3,000 MILLION, INCLUDING \$2,500 MILLION CAPITAL AND \$500 MILLION INTEREST. TABLE III INDICATES DEBT MATURITIES ARE BUNCHED DURING JANUARY-APRIL CONTRIBUTING TO THE URGENCY OF THE FINANCIAL CRISIS.

14. ACTUAL 1976 CAPITAL AMORTIZATION IS ESTIMATED AT \$1,000 MILLION - ABOUT LAST YEAR'S LEVEL. THIS FIGURE IS BASED ON THE ASSUMPTION THAT THE GOA WILL SUCCESSFULLY ROLL OVER MOST SHORT TERM PRIVATE FINANCIAL DEBT. IN ARGENTINA, A HIGH PROPORTION OF THESE NATURITIES ARE NORMALLY ROLLED OVER FROM ONE YEAR TO ANOTHER. THIS FACT ACCOUNTS FOR THE SIGNIFICANT DIFFERENCE OFTEN NOTED BETWEEN DEBT PROJECTIONS AND ACTUAL AMORTIZATION. THE DEBT SERVICE RATIO FOR 1976 IS ESTIMATED AT 29 PER CENT (CAPITAL AMORTIZATION/EXPORTS).

15. TOTAL DEBT: TABLES V AND VI PROVIDE DATA ON ARGENTINA'S TOTAL EXTERNAL DEBT. AS OF 10-31-75, THE FIGURE WAS \$9,870 MILLION, INCLUDING \$8,204 MILLION CAPITAL AND \$1,666 MILLION INTEREST. PUBLIC SECTOR DEBT IS 66 PERCENT OF THE TOTAL WITH PRIVATE SECTOR DEBT 34 PER CENT. US FINANCIAL INSTITUTIONS, EXPORTERS, ETC. HOLD ABOUT 32 PERCENT OF TOTAL CAPITAL DEBT.

16. CONCLUDING COMMENTS: THIS REPORT IS WRITTEN AS CENTRAL BANK PRESIDENT ZALDUENDO TRAVELS TO WASHINGTON WITH THE GOA'S NEW ECONOMIC PROGRAM IN HAND. OUR PRELIMINARY REACTION IS THAT THE PROGRAM IS ECONOMICALLY REALISTIC, QUITE SEVERE, AND THE MOST THAT COULD BE EXPECTED UNDER PRESENT CIRCUMSTANCES. NEVERTHELESS, PROSPECTS FOR ITS EFFECTIVE IMPLEMENTATION REMAIN CONFIDENTIAL

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UNCERTAIN. LABOR UNIONS ARE NOT HAPPY WITH THE PROGRAM AND ARE LIKELY TO RESIST CERTAIN PORTIONS OF IT. IF ASKED FOR ASSISTANCE, THE USG SHOULD REMAIN SYMPATHETIC TO ARGENTINA'S EXTERNAL PROBLEMS BUT AVOID INVOLVEMENT AT THIS TIME.

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Message Attributes

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